securities lending times

Technology Annual 2018

A costly choice

Martin Walker of Broadridge explains that only the right system today can give you the foundation for tomorrow's trading environment

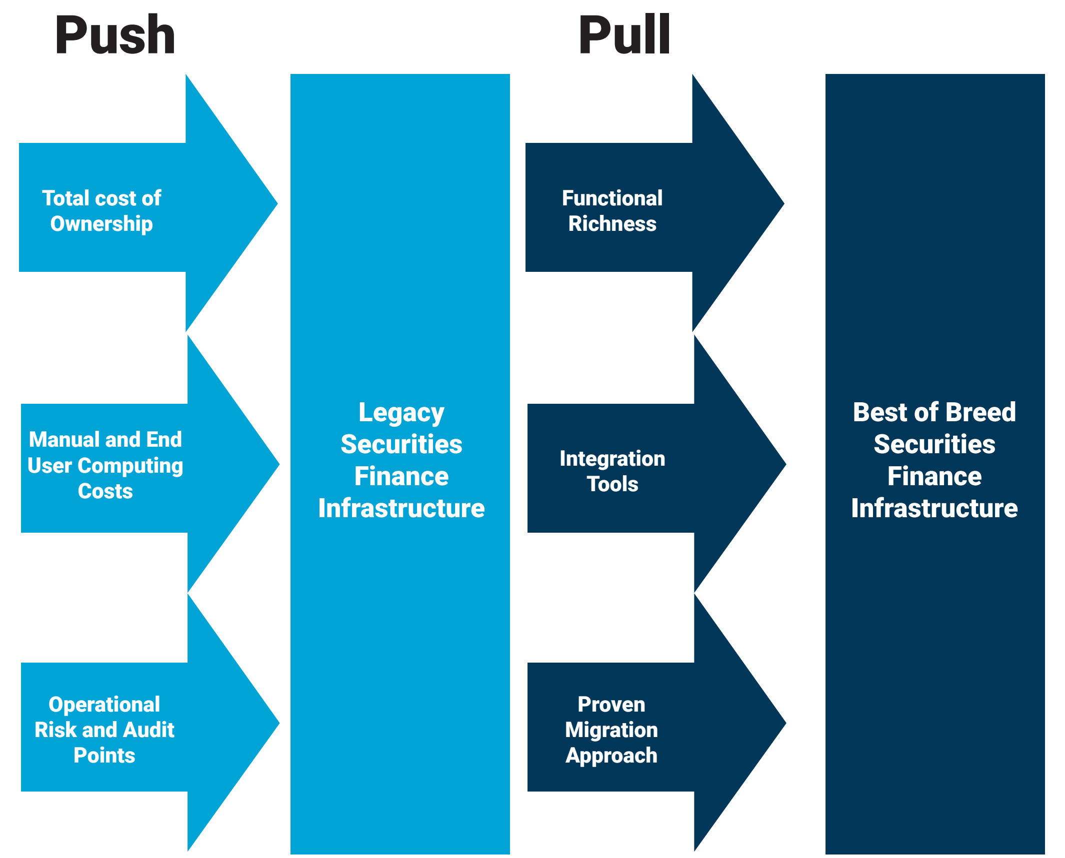
There is a point in the life of any core system in capital markets where the continuing dependence on it starts to make IT users and senior management uneasy. This can be for a variety of well justified reasons. It may be built on top of other technologies that are no longer supported. It is very likely that few, if any, of the staff from the original implementation remain. This can cause significant problems if there is a need to explain the workings of more complicated parts of the system, let alone fix more difficult problems.

An aging system is also likely to have acquired a series of audit points and have other high profile issues, related to information security or supportability. Perhaps worst of all, they typically lack the flexibility to deal with new requirements, and may be harder to integrate into new infrastructure. As regulatory changes hit securities finance, such as the Securities Financing Transaction Regulation (SFTR), the last thing any business or IT department wants are systems that cannot be adapted in a timely manner.

In spite of the very strong reasons to upgrade to more contemporary and functionally rich system, there can be a great deal of organisational inertia. Changing a core system, particular securities finance solutions that are connected to multiple front and back office systems, are often viewed as an expensive process. On the other side of the benefits case, it is likely that the running costs of the core legacy securities finance system would appear to be low, with the investment cost fully amortised. There are also perceived risks involved in replacing any system that has grown to be a fundamental part of a firm's capital markets infrastructure.

While consideration of the risks and costs is a key part of building any business case, it is not the full story. On the cost, it is necessary to establish the total cost of ownership of the legacy system. With legacy securities finance systems, it is very common for them to develop a rich 'crusting' of additional systems and components,

Figure 1: Push and pull factors in replacing legacy securities finance solutions



put in place to supplement its functionality. The cost of maintaining and supporting those supplemental systems is typically several multiples of the cost of the legacy 'workhorse' in the middle. The current trend for simplifying system infrastructure is based on the justified belief that supporting a complex web of interconnected systems results in higher costs.

Further costs from legacy infrastructure can be found in the manual processes, and end user workload required to fill the gaps and deal with any errors resulting from poor connectivity or hard to solve issues. The proliferation of access databases, spreadsheets and manual processing can apply equally strongly in both the front and back office. In the worst cases, the legacy system many not even be a specialist securities finance system, thus generating a greater proliferation of manual processes and spreadsheet based work-arounds.

Looking further ahead, the last thing business or IT want is to add additional functionality and components on top of an already fragile ecosystem to deal with the need for regulatory compliance and enhanced control.

The push to put in place new systems is clearly much stronger if you consider all of the relevant factors but how strong is the pull? The right modern system can provide the functionality and the implementation tools to both maximise value and minimise the cost and risk in implementation. The first thing to look for is a set of functionality that can replace both the core legacy system, and all of the ancillary systems that have built up around it over time. It is even better if the chosen system provides functionality to support multiple regions, multiple product types and multiple phases of the trade lifecycle. This allows an even higher degree of simplification and cost savings.

Almost as important as a rich set of functionality are the tools to aid integration. The days when every interface between a securities finance system and risk, operations, reference data, compliance, finance and other front office systems was hand crafted should be long over. A credible replacement system needs to come with a configurable integration layer that reduces both the costs and risks of system integration. The final way to drive out project risk and significantly reduce project risks is to make sure your new systems vendor has performed similar data migrations in the past.

In spite of tight IT budgets, it is clearly possible to build the business case for improving your securities finance infrastructure if approached in the right way. However, the most fundamental reasons for implementing a more flexible and more functional system related with the past or present. To survive in a future where competition for revenues grows stronger, while regulation may grow more onerous, requires a solid system foundation. Technologies such as artificial intelligence or even algorithmic trading, are in their infancy in most areas of securities finance. However, both have a fundamental reliance on good quality data that is easy to access and process. Only the right system today can give you the foundation for tomorrow's trading environment. **SLT**

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Martin Walker
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